



CITY OF HASTINGS
HASTINGS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

CITY OF HASTINGS

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INDEPENDENT AUDITORS' REPORT

November 17, 2008

Honorable Mayor and
Members of the City Council
City of Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Hastings, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and Library special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, on our consideration of the City of Hastings' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hastings' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Hastings' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Hastings, we offer readers of the City of Hastings' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City's total net assets increased to \$26,423,278 at the end of the current fiscal compared to \$25,671,893 at the end of the prior period. Net assets of governmental activities (including the internal service funds) increased by \$402,162. Net assets of business-type activities increased by \$349,223.
- During the year, the City's revenues were \$8,363,423, a decrease of \$3,647,668 (30.4%) over the prior year. The City's expenses increased, by \$373,911 (5.2%) to \$7,612,038. Revenues exceeded expenses for the year by \$751,385. The magnitude of the change in revenue is attributable to the prior substantial completion of the library building project, thus not receiving significant sums for construction and other services as had been the case in the prior period.
- The City continues to carefully manage cash and its investment procedures to ensure that the maximum amount possible is invested at interest and seeks new investment partners and vehicles to optimize return (consistent with security of principal). In the early stages of a difficult investment market, investment earnings decreased from \$425,656 in the prior year to \$314,935 in the current year. We expect this trend to continue into the following period.
- In the General Fund, revenues, incoming transfers, and other financing sources exceeded expenditures and outgoing transfers by \$289,868, increasing the fund balance from \$696,293 to \$986,161.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hastings' financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Hastings that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services and a business incubator program. The government-wide financial statements include not only the City of Hastings itself (known as the *primary government*), but also a legally separate Downtown Development Authority and Local Development Finance Authority for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hastings, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, local streets, and library funds, each of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-23 of this report.

Proprietary funds. The City of Hastings maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hastings uses enterprise funds to account for its water, sewer, and business incubator operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its fleet of vehicles and accounting

for administrative services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer and business incubator operations, both of which are considered major funds of the City of Hastings.

The basic proprietary fund financial statements can be found on pages 24-27 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-42 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 43-57 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hastings, assets exceeded liabilities by \$26,423,278 at the close of the most recent fiscal year.

One of the larger portions of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table below summarizes the components of the City's net assets for the current and prior fiscal years.

City of Hastings Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 3,377,541	\$ 3,384,709	\$ 3,518,048	\$ 3,295,550	\$ 6,895,589	\$ 6,336,520
Capital assets	11,466,020	11,493,660	11,545,738	11,612,797	23,011,758	23,450,196
Total assets	14,843,561	14,878,369	15,063,786	14,908,347	29,907,347	29,786,716
Long-term liabilities	859,797	976,112	2,031,269	2,207,432	2,891,066	3,183,544
Other liabilities	507,389	828,044	85,614	103,235	593,003	931,279
Total liabilities	1,367,186	1,804,156	2,116,883	2,310,667	3,484,069	4,114,823
Net assets:						
Invested in capital assets, net of related debt	10,966,020	10,908,660	9,540,601	9,426,533	20,506,621	20,335,193
Restricted	924,582	891,484	850,425	862,502	1,775,007	1,753,986
Unrestricted	1,585,773	1,274,069	2,555,877	2,308,645	4,141,650	3,582,714
Total net assets	<u>\$13,476,375</u>	<u>\$13,074,213</u>	<u>\$12,946,903</u>	<u>\$12,597,680</u>	<u>\$26,423,278</u>	<u>\$25,671,893</u>

Net assets of the City increased by \$751,385 with both governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$349,223 was the result of steady revenues from operations and careful management of expenses. The governmental activities increase in net assets of \$402,162 was the result of the some revenues being received in larger quantity than anticipated, some significant projects being delayed into the later period, and, again, careful management of all expenses.

City of Hastings Changes in Net Assets

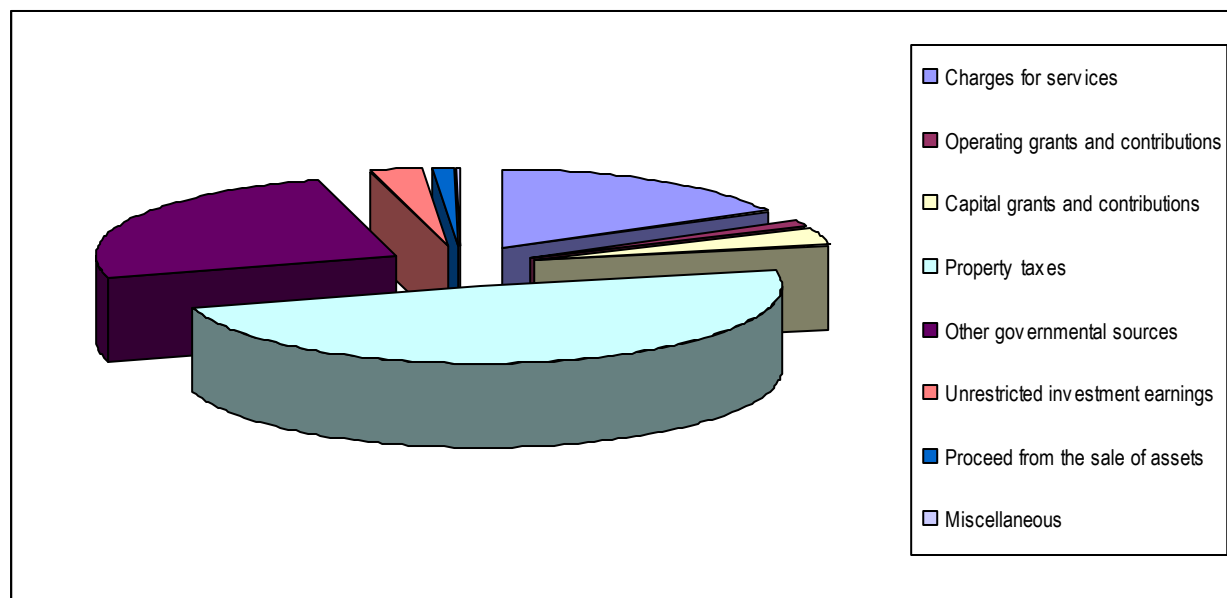
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue:						
Program revenue:						
Charges for services	\$ 1,010,539	\$ 867,727	\$2,250,845	\$3,004,708	\$ 3,261,384	\$ 3,872,435
Operating grants and contributions	72,959	11,879	-	-	72,959	11,879
Capital grants and contributions	210,613	3,439,813	-	-	210,613	3,439,813
General revenue:						
Property taxes	2,861,348	2,736,925	-	-	2,861,348	2,736,925
Other governmental Sources	1,505,973	1,491,761	-	-	1,505,973	1,491,761
Unrestricted investment earnings	170,380	272,843	131,588	140,916	301,968	413,759
Proceeds on sale of assets	66,031	-	-	-	66,031	-
Miscellaneous	11,036	(46,366)	72,111	90,885	83,147	44,519
Total revenue	<u>5,908,879</u>	<u>8,774,582</u>	<u>2,454,544</u>	<u>3,236,509</u>	<u>8,363,423</u>	<u>12,011,091</u>

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Expenses:						
General government	\$ 317,890	\$ 243,840	\$ -	\$ -	\$ 317,890	\$ 243,840
Public safety	2,513,228	2,463,091	-	-	2,513,228	2,463,091
Public works	679,890	775,611	-	-	679,890	775,611
Recreation and cultural	1,265,450	1,090,245	-	-	1,265,450	1,090,245
Community and Economic development	694,302	565,712	-	-	694,302	565,712
Interest on long-term debt	35,957	43,764	-	-	35,957	43,764
Water & Sewer	-	-	1,972,334	1,909,140	1,972,334	1,909,140
Business Incubator	-	-	132,987	146,724	132,987	146,724
Total expenses	5,506,717	5,182,263	2,105,321	2,055,864	7,612,038	7,238,127
Change in net assets	402,162	3,592,319	349,223	1,180,645	751,385	4,772,964
Net assets - beginning of year	13,074,213	9,481,894	12,597,680	11,417,035	25,671,893	20,898,929
Net assets - end of year	\$13,476,375	\$13,074,213	\$12,946,903	\$12,597,680	\$26,423,278	\$25,671,893

Governmental Activities Revenue

Total governmental revenue decreased by \$2,865,703. Property tax revenue increased due to increasing taxable values; grants and contributions revenue decreased significantly, mostly due to the substantial completion of the library building project in the prior period; general state revenue sharing held steady.

Governmental Activities Revenues by Source (FYE June 30 2008)

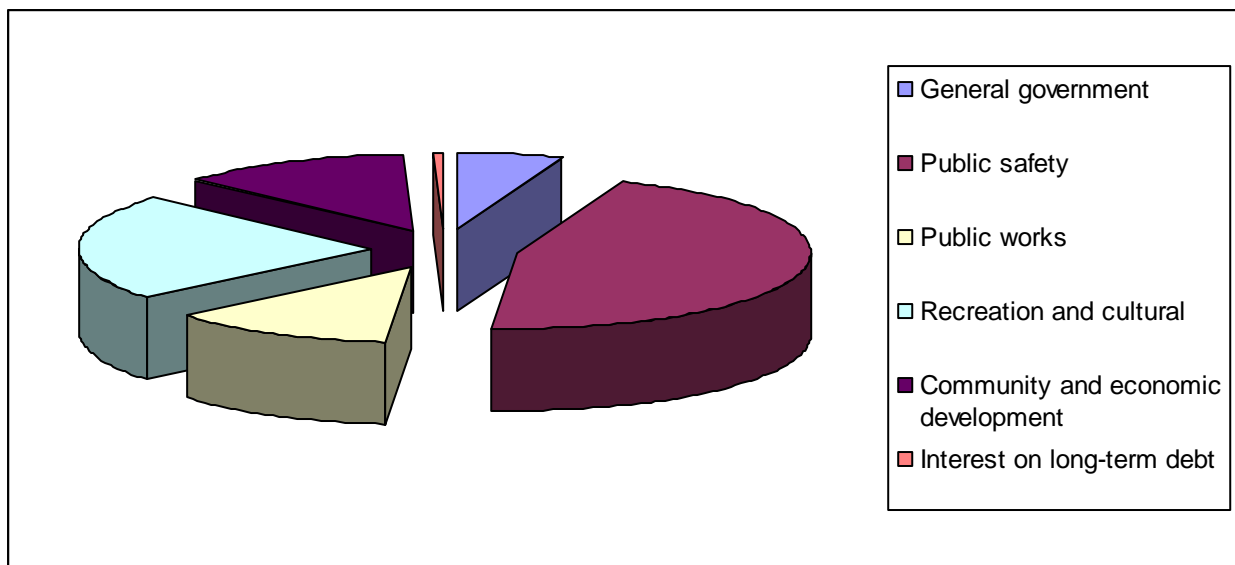


Governmental Activities Expenses

Total governmental expenses increased \$324,454. Increases relate to cost of living increases in wages and most benefits, larger increases in health insurance for active employees and retirees, and variations in levels of program activity. The overall increase in total expenses for governmental activities was equal to the previous period (about 6.3%).

During the year, the City continued its emphasis in public safety by investing \$2,513,228, or 45.6% of governmental activities expenses. Recreation and cultural services was \$1,265,450 or 23.0% of governmental activities expenses. The combination of general government, public works, community and economic development, and interest on long-term debt made up the remaining \$1,728,039 or 31.4% of governmental activities expenses.

Governmental Activities Expenses by Category (FYE June 30 2008)



Business-Type Activities

The City's business-type activities include the Water and Sewer System and a Business Incubator. Revenue of the business-type activities was \$2,454,544 (a decrease of \$781,965 from the prior year). Revenue for the Water & Sewer System decreased, in significant part due to a return to a more normal amount of new connection fees (the prior period was unusually high), while revenue for the Business Incubator also continued to decline. Expenses were \$2,105,321 (a relatively small increase of \$49,457 from the prior year). Net income from business-type activities was \$349,223 (a significant decrease of \$831,422 from the prior year, again significantly related to reduced, but more normal, new connections to the water and sewer system).

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of about \$1.9 million, an increase of about \$323,000 in comparison with the prior year.

The increase is occasioned by ordinary operations. Approximately 70.6 percent of the total fund balance amount (about \$1,349,866) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for prepaid items (about \$15,000), 2) for inventory replacement (about \$2,000), 3) for library building funding (about \$500,000), and 4) for specific purposes of special revenue funds (about \$238,000).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$969,054, while total fund balance was \$986,161. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents about 22% percent of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$289,868 during the current fiscal year. This is primarily attributable to some revenue expectations being exceeded, some project type expenditures being delayed, and ongoing careful management of all operations. The budget had anticipated modest spending in excess of revenue.

The local streets fund has a total fund balance of \$83,765, which increased by \$71,427 during the year. The increase is primarily attributable to higher than expected special assessment revenue (pre-payment of taxpayer assessments) and lower expenses than planned in most fund activities. The balance will be applied to ongoing activities in future periods.

The library fund has a total fund balance of \$602,860, which decreased by \$177,428 during the year. This reduction is primarily attributable to the disbursement of assets reserved for the new library building during its construction but is also the result of a modest deficit in operating revenues compared to operating expenditures. This operating circumstance is largely the adjustment occasioned by occupying the new building.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Net assets of the water and sewer and business incubator funds at the end of the year amounted to \$12,312,774 and \$634,129, respectively. The sewer and water fund had an increase in net assets for

the year of \$345,296, while the business incubator fund had an increase of \$3,927. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

Differences between the original and final amended budgets for expenditures were mostly minor for the year. Budget amendments enacted during the year focused on projects in most funds that had been planned but not completed in the prior fiscal year (resources being re-appropriated to complete the projects in the current year) and for finishing construction of the new library building.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$23,011,758 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment. Infrastructure investments included in the total have only been added since 2003.

Major capital asset events during the current fiscal year included the following:

- Governmental activities
 - Infrastructure additions and improvements of approximately \$202,000
 - Construction of the new library building of approximately \$97,500
 - Acquisition of library furnishings and equipment of approximately \$50,800
 - Equipment fund acquisitions of approximately \$186,900
 - Improvements to networks and technology of approximately \$58,200
 - Sale of four parcels of industrial land for sale prices of \$66,000 against a value of \$27,700 for a gain of \$38,300
- Business-type activities
 - Water delivery system improvements of approximately \$202,800
 - Sewer disposal system improvements of approximately \$31,200
 - Water & Sewer fund equipment acquisitions of approximately \$46,000

City of Hastings Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 798,274	\$ 1,367,783	\$ 119,200	\$ 119,200	\$ 917,474	\$ 1,486,983
Construction in Prgs	212,106	56,461	147,458	2,648	359,564	59,109
Infrastructure	2,379,447	2,043,129	5,657,547	5,705,609	8,036,994	7,748,738
Buildings and system improvements	5,862,616	5,896,792	5,158,519	5,350,146	11,021,135	11,246,938
Vehicles and equipment	2,213,577	2,129,495	463,014	435,194	2,676,591	2,564,689
Total	\$11,466,020	\$11,493,660	\$11,545,738	\$11,612,797	\$23,011,758	\$23,106,457

Additional information on the City of Hastings capital assets can be found in Note 3 on pages 37-38 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,891,006. Of this amount, \$2,031,269 was debt of business-type activities and \$859,797 was debt of governmental activities.

City of Hastings General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Accrued employee benefits	\$359,797	\$391,112	\$ 26,132	\$ 21,168	\$ 385,929	\$ 412,280
Notes	500,000	585,000	-	-	500,000	585,000
Bonds	-	-	2,005,137	2,186,264	2,005,137	2,186,264
Total	\$859,797	\$976,112	\$2,031,269	\$2,207,432	\$2,891,006	\$3,183,544

The City's total debt decreased by \$292,478 (9.2 percent) during the current fiscal year.

The City is currently not rated for general obligation bond issuance.

Additional information on the City's long-term debt can be found in Note 6 on page 40 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2008-2009 fiscal year:

- The City strives to continue to provide a comprehensive array of services to its citizens. One continuing tenant of budget development is to attempt to maintain the existing variety and level of service. The City examines all functions within the budget for opportunities to improve productivity and efficiency – delivering equal and better service for lower cost.
- Wages and most benefits are expected to continue to increase at approximately the rate of general inflation.
- The cost of health benefits for current employees and retirees continues to grow at a faster

pace than City revenues. The City attempts to address this issue with a premium sharing arrangement with employees (the employees pay a portion of all cost increases) and with modest benefit adjustments (such as increasing co-payments for prescription drugs). The 2008-2009 budget anticipates the continuation of recent trends. The City has also acted to change retirement health benefits such that employees hired from 2003 to 2005 will not be eligible for City payments (depending on employee group).

- The City has an established history of evaluating rates for services each year to ensure that charges approximately equal costs. This is particularly important in protecting the health of the water and sewer fund, generating resources for the maintenance and improvement of the system.
- The budget for the coming fiscal year anticipates steady state revenue sharing. The general condition of the state's economy, as well as continuing budget action by the State Legislature, have the potential to affect the validity of that assumption.
- The status of the general economy in Michigan and the country has the potential to affect the City in several ways.
 - The City's General Fund derives significant resources from local property taxes. As the general economy continues to struggle, the City's property tax revenues have been affected, although only moderately to date. In the longer term, prolonged continuation of current trends have the potential for this impact to be significant.
 - On a broader scale, general economic conditions affect the ability of the City's citizens and commercial enterprises to maintain economic activity. There is, of course, potential for negative impact on the City.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 201 E. State Street, Hastings, Michigan 49058.

BASIC FINANCIAL STATEMENTS

CITY OF HASTINGS

Statement of Net Assets

June 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
Assets					
Cash and pooled investments	\$ 2,357,484	\$ 1,888,519	\$ 4,246,003	\$ 345,631	\$ 69,762
Restricted cash and investments	450,553	863,643	1,314,196	-	-
Receivables:					
Accounts	45,688	324,721	370,409	-	-
Taxes	15,268	-	15,268	-	-
Special assessments	45,242	19,390	64,632	-	-
Due from other governmental units	336,372	-	336,372	-	-
Internal balances	(204,961)	204,961	-	-	-
Inventory	1,866	216,814	218,680	-	-
Prepaid items	90,542	-	90,542	-	-
Investment in joint venture	277,313	-	277,313	-	-
Capital assets not being depreciated	1,010,380	266,658	1,277,038	-	-
Capital assets being depreciated, net	10,455,640	11,279,080	21,734,720	-	-
Total assets	14,881,387	15,063,786	29,945,173	345,631	69,762
Liabilities					
Accounts payable	353,143	47,175	400,318	11,020	-
Accrued liabilities	80,842	22,358	103,200	-	-
Deposits	30,144	2,863	33,007	-	-
Accrued interest	6,086	13,218	19,304	-	-
Advance from other governments	75,000	-	75,000	-	-
Noncurrent liabilities:					
Compensated absences	359,797	26,132	385,929	-	-
Current portion of bonds payable	100,000	191,127	291,127	-	-
Bonds payable, net of current portion	400,000	1,814,010	2,214,010	-	-
Total liabilities	1,405,012	2,116,883	3,521,895	11,020	-
Net assets					
Invested in capital assets, net of related debt	10,966,020	9,540,601	20,506,621	-	-
Restricted for:					
Major streets	182,414	-	182,414	-	-
Local streets	83,765	-	83,765	-	-
Library	602,860	-	602,860	-	-
Drug enforcement/D.A.R.E.	55,543	-	55,543	-	-
Bond covenants	-	850,425	850,425	-	-
Unrestricted	1,585,773	2,555,877	4,141,650	334,611	69,762
Total net assets	\$ 13,476,375	\$ 12,946,903	\$ 26,423,278	\$ 334,611	\$ 69,762

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Activities

For the Year Ended June 30, 2008

		Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Expenses					
Primary government					
Governmental activities:					
General government	\$ 317,890	\$ 139,358	\$ 20,600	\$ -	\$ (157,932)
Public safety	2,513,228	431,793	3,402	4,140	(2,073,893)
Public works	679,890	35,031	-	134,457	(510,402)
Recreation and cultural	1,265,450	360,690	48,957	72,016	(783,787)
Community and economic development	694,302	43,667	-	-	(650,635)
Interest on long-term debt	35,957	-	-	-	(35,957)
Total governmental activities	5,506,717	1,010,539	72,959	210,613	(4,212,606)
Business-type activities:					
Sewer/water	1,972,334	2,195,191	-	-	222,857
Business incubator	132,987	55,654	-	-	(77,333)
Total business-type activities	2,105,321	2,250,845	-	-	145,524
Total primary government	\$ 7,612,038	\$ 3,261,384	\$ 72,959	\$ 210,613	\$ (4,067,082)
Component units					
Downtown Development Authority	\$ 390,407	\$ -	\$ -	\$ -	\$ (390,407)
Local Development Finance Authority	1,658	-	-	-	(1,658)
Total component units	\$ 392,065	\$ -	\$ -	\$ -	\$ (392,065)

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Activities (Concluded)

For the Year Ended June 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
Changes in net assets					
Net (expense) revenue	\$ (4,212,606)	\$ 145,524	\$ (4,067,082)	\$ (390,407)	\$ (1,658)
General revenues:					
Property taxes	2,861,348	-	2,861,348	494,558	4,763
Other governmental sources	1,505,973	-	1,505,973	-	-
Unrestricted investment earnings	170,380	131,588	301,968	11,273	1,695
Proceeds on sale of assets	66,031	-	66,031	-	-
Miscellaneous	74,871	8,276	83,147	600	-
Transfers	(63,835)	63,835	-	-	-
Total general revenues and transfers	4,614,768	203,699	4,818,467	506,431	6,458
Change in net assets	402,162	349,223	751,385	116,024	4,800
Net assets, beginning of year	13,074,213	12,597,680	25,671,893	218,587	64,962
Net assets, end of year	<u>\$ 13,476,375</u>	<u>\$ 12,946,903</u>	<u>\$ 26,423,278</u>	<u>\$ 334,611</u>	<u>\$ 69,762</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Balance Sheet Governmental Funds

June 30, 2008

	General Fund	Local Streets	Library	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 890,648	\$ 163,158	\$ 166,695	\$ 279,670	\$ 1,500,171
Restricted cash and investments	-	-	450,553	-	450,553
Receivables:					
Accounts	45,662	-	-	-	45,662
Taxes	15,268	-	-	-	15,268
Special assessments	-	45,242	-	-	45,242
Due from other governmental units	250,099	23,468	5,705	57,100	336,372
Inventory	1,866	-	-	-	1,866
Prepaid items	15,241	-	-	-	15,241
Total assets	\$ 1,218,784	\$ 231,868	\$ 622,953	\$ 336,770	\$ 2,410,375
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 57,591	\$ 99,970	\$ 12,103	\$ 97,786	\$ 267,450
Accrued liabilities	56,597	2,891	7,990	1,027	68,505
Advance from other funds	13,291	-	-	-	13,291
Advance from other governments	75,000	-	-	-	75,000
Deferred revenue	-	45,242	-	-	45,242
Deposits	30,144	-	-	-	30,144
Total liabilities	232,623	148,103	20,093	98,813	499,632
Fund balances					
Reserved for:					
Inventory	1,866	-	-	-	1,866
Prepaid items	15,241	-	-	-	15,241
Memorial fund	-	-	44,558	-	44,558
Capital campaign	-	-	405,995	-	405,995
Unreserved:					
Undesignated, reported in nonmajor special revenue funds	-	-	-	237,957	237,957
Undesignated	969,054	83,765	152,307	-	1,205,126
Total fund balances	986,161	83,765	602,860	237,957	1,910,743
Total liabilities and fund balances	\$ 1,218,784	\$ 231,868	\$ 622,953	\$ 336,770	\$ 2,410,375

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

Fund balances- total governmental funds	\$ 1,910,743
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	753,680
Add - capital assets being depreciated, net	8,150,186

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred special assessments receivable	45,242
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An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	2,530,705
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The government's investment in its joint venture is not a financial resource, and therefore is not reported in the funds.

Add - investment in joint venture	277,313
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Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences	<u>(191,494)</u>
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Net assets of governmental activities	<u><u>\$ 13,476,375</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2008

	General Fund	Local Streets	Library	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,861,348	\$ -	\$ -	\$ -	\$ 2,861,348
Special assessments	-	37,938	-	-	37,938
Licenses and permits	30,024	-	-	-	30,024
Intergovernmental revenue:					
Federal	4,140	-	-	134,457	138,597
State	744,485	166,466	8,509	372,289	1,291,749
Local	214,224	-	429,116	3,402	646,742
Charges for services	502,102	-	8,391	-	510,493
Fines and forfeitures	21,093	-	41,426	258	62,777
Rentals	64,071	-	-	-	64,071
Interest	102,247	4,031	27,925	4,825	139,028
Other	39,085	-	15,605	8,415	63,105
Total revenues	4,582,819	208,435	530,972	523,646	5,845,872
Expenditures					
General government	231,380	-	-	-	231,380
Public safety	2,603,834	-	-	7,274	2,611,108
Public works	-	358,791	-	511,132	869,923
Community and economic development	643,179	-	-	-	643,179
Recreation and cultural	159,355	-	861,251	-	1,020,606
Capital outlay	-	-	148,906	-	148,906
Total expenditures	3,637,748	358,791	1,010,157	518,406	5,525,102
Revenues over (under) expenditures	945,071	(150,356)	(479,185)	5,240	320,770
Other financing sources (uses)					
Transfers in	17,974	221,783	301,757	144,001	685,515
Transfers (out)	(739,208)	-	-	(10,142)	(749,350)
Sale of capital assets	66,031	-	-	-	66,031
Total other financing sources (uses)	(655,203)	221,783	301,757	133,859	2,196
Net change in fund balances	289,868	71,427	(177,428)	139,099	322,966
Fund balances, beginning of year	696,293	12,338	780,288	98,858	1,587,777
Fund balances, end of year	\$ 986,161	\$ 83,765	\$ 602,860	\$ 237,957	\$ 1,910,743

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 322,966
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	621,315
Add - transfers of capital assets to business-type activities	(110,451)
Deduct - depreciation expense	(508,372)
Deduct - proceeds from sale of capital assets	(66,031)
Deduct - loss on disposal of assets	(140,386)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred special assessments receivable	(2,907)
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The City's investment in its joint venture is not a financial resource, and therefore not reported in the funds.

Deduct - decrease in value of investment in joint venture	(66,426)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - net income from internal service funds	309,942
Add - decrease in the accrual for compensated absences	42,512

Change in net assets of governmental activities	<u>\$ 402,162</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Revenues, Expenditures and Changes in Fund Balances General Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 2,819,958	\$ 2,819,958	\$ 2,861,348	\$ 41,390
Licenses and permits	27,500	27,500	30,024	2,524
Intergovernmental revenue:				
Federal	-	-	4,140	4,140
State	680,500	680,500	744,485	63,985
Local	216,533	216,533	214,224	(2,309)
Charges for services	430,500	500,495	502,102	1,607
Fines and forfeitures	15,000	15,000	21,093	6,093
Rentals	62,500	62,500	64,071	1,571
Interest	65,000	65,000	102,247	37,247
Other	1,000	36,798	39,085	2,287
Total revenues	4,318,491	4,424,284	4,582,819	158,535
Expenditures				
General government:				
City Council	61,253	61,604	57,340	(4,264)
Elections	17,588	17,679	13,103	(4,576)
Assessor	177,099	178,104	160,937	(17,167)
Total general government	255,940	257,387	231,380	(26,007)
Public safety:				
Police	1,819,870	1,859,048	1,826,821	(32,227)
Fire	838,082	848,949	777,013	(71,936)
Total public safety	2,657,952	2,707,997	2,603,834	(104,163)
Community and economic development:				
Community promotion	441,025	421,083	414,377	(6,706)
Economic development	187,306	208,432	178,641	(29,791)
Parking enforcement	44,828	48,640	50,161	1,521
Total community and economic development	673,159	678,155	643,179	(34,976)

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CITY OF HASTINGS

Statement of Revenues, Expenditures and Changes in Fund Balances General Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Recreation and cultural	\$ 174,211	\$ 174,534	\$ 159,355	\$ (15,179)
Total expenditures	3,761,262	3,818,073	3,637,748	(180,325)
Revenue over expenditures	557,229	606,211	945,071	338,860
Other financing sources (uses)				
Transfers in	17,974	17,974	17,974	-
Transfers (out)	(814,366)	(739,208)	(739,208)	-
Proceeds on sale of capital assets	-	33,164	66,031	32,867
Total other financing sources (uses)	(796,392)	(688,070)	(655,203)	32,867
Net change in fund balances	(239,163)	(81,859)	289,868	371,727
Fund balances, beginning of year	696,293	696,293	696,293	-
Fund balances, end of year	\$ 457,130	\$ 614,434	\$ 986,161	\$ 371,727

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Schedule of Revenues, Expenditures and Changes in Fund Balance Local Streets Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Special assessments	\$ 15,000	\$ 15,000	\$ 37,938	\$ 22,938
Intergovernmental revenue:				
State	173,904	173,904	166,466	(7,438)
Interest	-	-	4,031	4,031
Total revenues	188,904	188,904	208,435	19,531
Expenditures				
Public works:				
Construction	125	125	-	(125)
Routine maintenance	425,614	421,901	358,791	(63,110)
Total expenditures	425,739	422,026	358,791	(63,235)
Revenues over (under) expenditures	(236,835)	(233,122)	(150,356)	82,766
Other financing sources				
Transfers in	236,835	221,783	221,783	-
Net change in fund balances	-	(11,339)	71,427	82,766
Fund balance, beginning of year	12,338	12,338	12,338	-
Fund balance, end of year	\$ 12,338	\$ 999	\$ 83,765	\$ 82,766

CITY OF HASTINGS

Statement of Revenues, Expenditures and Changes in Fund Balances Library Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental revenue:				
State	\$ 7,000	\$ 7,000	\$ 8,509	\$ 1,509
Local	376,167	454,325	429,116	(25,209)
Charges for services	8,920	10,320	8,391	(1,929)
Fines and forfeitures	33,000	37,500	41,426	3,926
Interest	6,000	11,000	27,925	16,925
Other	1,015	15,715	15,605	(110)
Total revenues	432,102	535,860	530,972	(4,888)
Expenditures				
Recreation and culture:				
Library	756,566	887,712	861,251	(26,461)
Capital outlay	6,500	166,000	148,906	(17,094)
Total expenditures	763,066	1,053,712	1,010,157	(43,555)
Revenues over (under) expenditures	(330,964)	(517,852)	(479,185)	38,667
Other financing sources				
Transfers in	301,757	301,757	301,757	-
Net change in fund balances	(29,207)	(216,095)	(177,428)	38,667
Fund balance, beginning of year	780,288	780,288	780,288	-
Fund balance, end of year	\$ 751,081	\$ 564,193	\$ 602,860	\$ 38,667

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Net Assets Proprietary Funds

June 30, 2008

	Business-type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Water and Sewer	Business Incubator		
Assets				
Current assets:				
Cash and pooled investments	\$ 1,746,452	\$ 142,067	\$ 1,888,519	\$ 857,313
Restricted cash and investments	863,643	-	863,643	-
Receivables:				
Accounts	323,484	1,237	324,721	26
Special assessments	19,390	-	19,390	-
Inventory	216,814	-	216,814	-
Prepaid items	-	-	-	75,301
Total current assets	3,169,783	143,304	3,313,087	932,640
Non-current assets:				
Advance to other funds	264,093	-	264,093	13,291
Capital assets not being depreciated	246,658	20,000	266,658	256,700
Capital assets being depreciated, net	10,744,632	534,448	11,279,080	2,305,454
Total non-current assets	11,255,383	554,448	11,809,831	2,575,445
Total assets	14,425,166	697,752	15,122,918	3,508,085
Liabilities				
Current liabilities:				
Accounts payable	46,261	914	47,175	85,693
Accrued liabilities	22,072	286	22,358	12,337
Deposits	-	2,863	2,863	-
Accrued interest	13,218	-	13,218	6,086
Compensated absences	25,704	428	26,132	168,303
Current portion of bonds payable	195,000	-	195,000	100,000
Current portion of unamortized discount on bonds payable	(3,873)	-	(3,873)	-
Total current liabilities	298,382	4,491	302,873	372,419
Long-term liabilities:				
Advance from other funds	-	59,132	59,132	204,961
Bonds payable, net of current maturities	1,845,000	-	1,845,000	400,000
Unamortized discount on bonds payable	(30,990)	-	(30,990)	-
Total long-term liabilities	1,814,010	59,132	1,873,142	604,961
Total liabilities	2,112,392	63,623	2,176,015	977,380
Net assets				
Invested in capital assets, net of related debt	8,986,153	554,448	9,540,601	2,062,154
Restricted for bond covenants	850,425	-	850,425	-
Unrestricted	2,476,196	79,681	2,555,877	468,551
Total net assets	\$ 12,312,774	\$ 634,129	\$ 12,946,903	\$ 2,530,705

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2008

	Business-type Activities			Governmental
	Enterprise Funds		Total	Activities
	Water and	Business	Enterprise	Internal
	Sewer	Incubator	Funds	Service Funds
Operating revenues				
Charges for services	\$ 2,203,467	\$ 10,684	\$ 2,214,151	\$ 2,035,185
Rentals	-	44,970	44,970	-
Total operating revenues	2,203,467	55,654	2,259,121	2,035,185
Operating expenses				
Personnel services	615,645	14,977	630,622	981,442
Professional and contractual services	83,578	1,950	85,528	163,064
Materials and supplies	169,991	3,704	173,695	264,904
Utilities	164,417	52,721	217,138	70,542
Repairs and maintenance	111,220	12,570	123,790	70,660
Insurance and bonds	-	-	-	77,127
Equipment rental	91,163	769	91,932	24,463
Depreciation	321,593	25,610	347,203	183,540
Administrative services	280,533	7,133	287,666	26,270
Miscellaneous	47,251	9,779	57,030	2,431
Total operating expenses	1,885,391	129,213	2,014,604	1,864,443
Operating income (loss)	318,076	(73,559)	244,517	170,742
Nonoperating revenues (expenses)				
Interest income	131,107	481	131,588	31,352
Gain on sale of assets	-	-	-	11,378
Miscellaneous revenue	-	-	-	20,988
Interest expense	(86,943)	(3,774)	(90,717)	(34,969)
Total non-operating revenues (expenses)	44,164	(3,293)	40,871	28,749
Net income (loss) before transfers	362,240	(76,852)	285,388	199,491
Transfers				
Transfers (out)	(17,974)	-	(17,974)	-
Transfers in	1,030	80,779	81,809	110,451
Total transfers	(16,944)	80,779	63,835	110,451
Change in net assets	345,296	3,927	349,223	309,942
Net assets, beginning of year	11,967,478	630,202	12,597,680	2,220,763
Net assets, end of year	\$ 12,312,774	\$ 634,129	\$ 12,946,903	\$ 2,530,705

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2008

	Business-type Activities		Total	Governmental
	Enterprise Funds		Enterprise	Activities
	Water and	Business	Funds	Internal
	Sewer	Incubator		Service Funds
Cash flows from operating activities				
Cash received from customers	\$ 2,147,977	\$ 53,145	\$ 2,201,122	\$ -
Cash received from other funds	-	-	-	2,041,000
Cash received from other miscellaneous sources	-	-	-	20,988
 Cash payments to suppliers for goods and services	(840,909)	(93,130)	(934,039)	(644,856)
Cash payments to employees for services	(599,515)	(14,713)	(614,228)	(966,734)
 Net cash provided by (used in) operating activities	707,553	(54,698)	652,855	450,398
Cash flows from non-capital financing activities				
Transfers from other funds	1,030	80,779	81,809	-
Transfers to other funds	(17,974)	-	(17,974)	-
Advance from other funds	-	(6,901)	(6,901)	(84,983)
 Net cash (used in) provided by non-capital financing activities	(16,944)	73,878	56,934	(84,983)
Cash flows from capital and related financing activities				
Acquisitions of capital assets	(280,144)	-	(280,144)	(250,805)
Proceeds from sale of capital assets	-	-	-	13,000
Principal paid on long-term debt	(185,000)	-	(185,000)	(85,000)
Interest and fiscal charges	(83,070)	(3,774)	(86,844)	(34,969)
 Net cash used in capital and related financing activities	(548,214)	(3,774)	(551,988)	(357,774)
Cash flows from investing activities				
Interest income	131,107	481	131,588	31,352
 Net increase in cash and pooled investments	273,502	15,887	289,389	38,993
Cash and pooled investments, beginning of year	2,336,593	126,180	2,462,773	818,320
Cash and pooled investments, end of year	\$ 2,610,095	\$ 142,067	\$ 2,752,162	\$ 857,313
Statement of net assets classification of cash and cash equivalents				
Cash and pooled investments	\$ 1,746,452	\$ 142,067	\$ 1,888,519	\$ 857,313
Restricted cash and investments	863,643	-	863,643	-
 Total cash and cash equivalents	\$ 2,610,095	\$ 142,067	\$ 2,752,162	\$ 857,313

Continued....

CITY OF HASTINGS

Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2008

	Business-type Activities			Governmental
	Enterprise Funds		Total	Activities
	Water and	Business	Enterprise	Internal
	Sewer	Incubator	Funds	Service Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ 318,076	\$ (73,559)	\$ 244,517	\$ 170,742
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	321,593	25,610	347,203	183,540
Miscellaneous receipts	-	-	-	20,988
Changes in assets and liabilities which provided (used) cash:				
Accounts receivable	(57,928)	1,324	(56,604)	1,754
Special assessments receivable	2,438	-	2,438	-
Due from other governmental units	-	-	-	7,688
Inventory and prepaid items	35,795	279	36,074	7,546
Advance to other funds	91,884	-	91,884	5,815
Accounts payable	(20,435)	(4,783)	(25,218)	38,771
Accrued liabilities	11,320	110	11,430	2,357
Deposits	-	(3,833)	(3,833)	-
Compensated absences	4,810	154	4,964	11,197
Net cash provided by (used in) operating activities	\$ 707,553	\$ (54,698)	\$ 652,855	\$ 450,398

The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2008

Assets

Cash and pooled investments	\$ 7,033
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Liabilities

Due to other governmental units	\$ 7,033
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hastings (the “City”) was incorporated March 11, 1871, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and cultural, public improvements, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Discretely Presented Component Units

Downtown Development Authority – The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Local Development Finance Authority and Brownfield Redevelopment Authority – The Local Development Finance Authority and Brownfield Redevelopment Authority were created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment zone. There is no activity in the current year for the Brownfield Redevelopment Authority. The members of the governing board of the Local Development Finance Authority and Brownfield Redevelopment Authority are appointed by the City Council. The budgets and expenditures of the Local Development Finance Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Local Development Finance Authority.

Complete financial statements for the component units are not separately prepared.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

Joint Venture

The City of Hastings has an equity investment in the Airport Commission (“the Commission”) (a joint venture as defined by GASB Statement No. 14). The Commission was formed with the Barry County Board of Commissioners through an agreement made in 1977. The Commission is run by a 5-member Board of Directors, consisting of 2 residents of Barry County appointed by the Barry County Board of Commissioners, 2 residents of the City of Hastings appointed by the Hastings City Council, and one member appointed by the other four. The Commission is responsible for acquisition of property, and constructing, operating, and maintaining airport facilities. Ownership of the property is vested in the City. It may exercise on behalf of the political subdivision by which it was created, all powers of each such political subdivision. It may not issue debt without approvals from the City and County. The City is designated as the agent for any federal or state airport aid.

The agreement requires that each governmental unit provide 50% of the net budget appropriation requirements and that financial record keeping be maintained by the County. During the current year, the City contributed approximately \$22,150 for its operations. The City of Hastings’ equity in this joint venture as of June 30, 2008 is \$277,313, which is recorded in the governmental activities of the City. The Commission is presented as a component unit in the County’s financial statements. The financial statements can be obtained by contacting Barry County, 220 West State, Hastings, MI 49058.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Local Streets Fund* is used to account for construction, maintenance, and repair of the City's local street.

The *Library Fund* is utilized to account for the operations and activities related to the Library and the Library Capital Campaign.

The City reports the following major proprietary funds:

Water and Sewer Fund – This fund is used to account for the cost of providing water to City residents and collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds which were used to finance improvements to the system.

Business Incubator Fund – This fund is used to account for activities provided to private companies to enhance business growth in the City.

CITY OF HASTINGS
Notes to Financial Statements
For the Year Ended June 30, 2008

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Internal Service Funds* are used to account for major machinery and equipment purchases and maintenance, as well as management services provided to other departments of the City on a cost-reimbursement basis.

The *Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory

Inventory is valued at cost on the first-in first-out basis.

Prepaid Items

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water distribution system	67
Sewage disposal system	67
Buildings and building improvements	30 - 50
Land improvements	10 - 20
Machinery, equipment, and vehicles	5 - 10

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Assets

Restricted assets are those assets set aside as required by the Enterprise Fund revenue bonds. These bonds require amounts to be set aside for construction, principal, interest expense, operations and maintenance, and a bond reserve. In addition, the City reports restricted assets in connection with the Library capital campaign in the Library Special Revenue fund.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other units within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

Compensated Absences

It is the City's policy to permit employees to accumulate earned unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it becomes due for payments (when the time is used or employment is terminated).

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

2. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to cash and cash equivalents and deposits are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$ 4,246,003	\$ 415,393	\$ 7,033	\$ 4,668,429
Restricted cash and investments	<u>1,314,196</u>	<u>-</u>	<u>-</u>	<u>1,314,196</u>
Total	<u>\$ 5,560,199</u>	<u>\$ 415,393</u>	<u>\$ 7,033</u>	<u>\$ 5,982,625</u>

Deposits and investments consist of the following at June 30, 2008:

Checking and savings accounts	\$ 933,193
Certificates of deposit (due within one year)	3,508,326
Investments	1,539,022
Petty cash	<u>2,084</u>
Total	<u>\$ 5,982,625</u>

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

These deposits are in eight (8) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$3,799,225 of the City's bank balance of \$4,536,942 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating
Commercial Paper:			
New Center Asset	8/28/08	\$ 198,104	AAA/Aaa
New Center Asset	11/25/08	324,875	AAA/Aaa
MBIA Class Fund	N/A	<u>1,016,043</u>	AAA/V1
		<u>\$ 1,539,022</u>	

Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The City's investment policy does not allow investments in banker acceptances or mutual funds. The credit rating on the City's investments are identified above.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities listed in the City's investment policy and by pre-qualifying the financial institutions, broker/dealers, intermediaries, set forth in accordance with the City's investment policy.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

Statutory Authority

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

3. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2008, are as follows:

	Balance July 1, 2007	Transfers & Adjustments	Additions	Dispositions	Balance June 30, 2008
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,367,783	\$ (464,740)	\$ -	\$ 104,769	\$ 798,274
Construction in progress	56,461	-	155,645	-	212,106
Total capital assets, not being depreciated	1,424,244	(464,740)	155,645	104,769	1,010,380
Capital assets, being depreciated:					
Land improvements	2,210,049	467,182	9,715	90,000	2,596,946
Infrastructure	-	-	39,231	-	39,231
Buildings and improvements	6,877,438	(2,452)	117,147	-	6,992,133
Machinery, vehicles and equipment	4,573,620	-	550,382	199,803	4,924,199
Total capital assets being depreciated	13,661,107	464,730	716,475	289,803	14,552,509
Less accumulated depreciation for:					
Land improvements	166,920	-	89,248	-	256,168
Infrastructure	-	-	562	-	562
Buildings and improvements	980,646	(10)	148,881	-	1,129,517
Machinery, vehicles and equipment	2,444,125	-	453,221	186,724	2,710,622
Total accumulated depreciation	3,591,691	464,740	691,912	186,724	4,096,869
Net capital assets, being depreciated	10,069,416	-	24,563	103,079	10,455,640
Net capital assets - governmental activities	\$ 11,493,660	\$ -	\$ 180,208	\$ 207,848	\$ 11,466,020

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

Business-type activities	Balance July 1, 2007	Transfers & Adjustments	Additions	Dispositions	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 119,200	\$ -	\$ -	\$ -	\$ 119,200
Construction in progress	2,648	-	144,810	-	147,458
Total capital assets not being depreciated	121,848	-	144,810	-	266,658
Capital assets being depreciated:					
Water system	6,120,704	-	60,380	-	6,181,084
Sewer system	2,296,232	-	28,880	-	2,325,112
Land improvements	1,054	-	-	-	1,054
Buildings and improvements	8,806,621	-	-	-	8,806,621
Machinery and equipment	710,514	(20)	46,074	22,587	733,981
Total capital assets being depreciated	17,935,125	(20)	135,334	22,587	18,047,852
Less accumulated depreciation for:					
Water system	2,228,253	-	94,683	-	2,322,936
Sewer system	484,102	-	42,586	-	526,688
Land improvements	26	-	53	-	79
Buildings and improvements	3,456,475	-	191,627	-	3,648,102
Machinery and equipment	275,320	(20)	18,254	22,587	270,967
Total accumulated depreciation	6,444,176	(20)	347,203	22,587	6,768,772
Net capital assets being depreciated	11,490,949	-	(211,869)	-	11,279,080
Net capital assets – business-type activities	\$ 11,612,797	\$ -	\$ (67,059)	\$ -	\$ 11,545,738

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 8,816
Public safety	140,237
Public works	19,561
Recreation and cultural	298,168
Community and economic development	41,590
Internal service funds	183,540
Total depreciation expense – governmental activities	<u>\$ 691,912</u>
Business-type activities:	
Water and sewer	\$ 321,593
Business incubator	25,610
Total depreciation expense – business type activities	<u>\$ 347,203</u>

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

4. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due to Other Funds
Advances:		
General Fund	\$ -	\$ 13,291
Water and Sewer	264,093	-
Business Incubator	-	59,132
Equipment Pool Internal Service Fund	13,291	155,103
Administrative Services Internal Service Fund	-	49,858
	\$ 277,384	\$ 277,384

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

5. INTERFUND TRANSFERS

The composition of transfers for the year ended June 30, 2008, is as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 17,974	\$ 739,208
Local Streets Fund	221,783	-
Library Fund	301,757	-
Nonmajor Funds	144,001	10,142
Enterprise Funds:		
Water and Sewer Fund	1,030	17,974
Business Incubator	80,779	-
Internal Service Funds	110,451	-
Governmental Activities	-	110,451
Total	\$ 877,775	\$ 877,775

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

Transfers out of governmental activities represent capital assets previously used in the operation of governmental funds that were transferred to the Equipment Pool internal service fund. As these assets were not recorded in the individual governmental funds, this transfer is reported as a reconciling item between governmental funds and governmental activities on page 19.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

6. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Governmental activities					
Installment purchase agreement payable through 2013 with interest at 4.95%	\$ 585,000	\$ -	\$ 85,000	\$ 500,000	\$ 100,000
Compensated absences	391,112	123,456	154,771	359,797	175,000
Total governmental activities	\$ 976,112	\$ 123,456	\$ 239,771	\$ 859,797	\$ 275,000
Business-type activities					
2006 refunding revenue bonds payable through 2017 with interest varying from 3.8% to 4.0%	\$ 2,225,000	\$ -	\$ 185,000	\$ 2,040,000	\$ 195,000
Unamortized discount and deferred refunding costs	(38,736)	-	(3,873)	(34,863)	(3,873)
Compensated absences	21,168	20,094	15,130	26,132	26,132
Total business-type activities	\$ 2,207,432	\$ 20,094	\$ 196,257	\$ 2,031,269	\$ 217,259

The annual requirements, excluding compensated absences and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2008 are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 100,000	\$ 22,275	\$ 195,000	\$ 81,070
2010	100,000	17,325	200,000	73,270
2011	100,000	12,375	210,000	65,270
2012	100,000	7,425	215,000	56,870
2013	100,000	2,475	225,000	48,270
2014-2017	-	-	995,000	99,280
	\$ 500,000	\$ 61,875	\$ 2,040,000	\$ 424,030

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

7. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0% to 20.40% of annual covered payroll, depending on division. Employee contributions range from 0% to 6.4%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2008 the City's annual pension cost for MERS of \$424,253 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 370,171	100%	\$ -
2006	402,658	100%	-
2007	424,253	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/05	\$ 8,441,080	\$ 12,273,095	\$ 3,832,015	69%	\$ 2,276,369	168%
12/31/06	8,831,735	12,967,213	4,135,478	68%	2,320,357	178%
12/31/07	9,216,984	13,435,723	4,218,739	69%	2,319,920	182%

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2008

8. OTHER POST-EMPLOYMENT BENEFITS

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 38 retirees are eligible. Depending on the bargaining unit, employees hired after dates between 2003 through 2006 will not be eligible for post employment health benefits. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant for retirees before 1992. After 1992, the retirees are required to contribute 10 percent of the premium. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the fiscal year ended June 30, 2008, expenses relating to other post-employment benefits amounted to approximately \$362,000.

9. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

10. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the City purchased a sewer cleaning truck and wheeled loader for \$289,500 and \$136,980, respectively.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

CITY OF HASTINGS

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2008

	Special Revenue				
	Major Streets	Drug Enforcement	Police Training	D.A.R.E.	Totals
Assets					
Cash and pooled investments	\$ 223,928	\$ 43,363	\$ 199	\$ 12,180	\$ 279,670
Due from other governmental units	57,100	-	-	-	57,100
Total assets	\$ 281,028	\$ 43,363	\$ 199	\$ 12,180	\$ 336,770
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 97,587	\$ -	\$ 199	\$ -	\$ 97,786
Accrued liabilities	1,027	-	-	-	1,027
Total liabilities	98,614	-	199	-	98,813
Fund balances					
Unreserved - undesignated	182,414	43,363	-	12,180	237,957
Total liabilities and fund balances	\$ 281,028	\$ 43,363	\$ 199	\$ 12,180	\$ 336,770

CITY OF HASTINGS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2008

	Special Revenue				
	Major Streets	Drug Enforcement	Police Training	D.A.R.E.	Totals
Revenues					
Intergovernmental revenue:					
Federal	\$ 134,457	\$ -	\$ -	\$ -	\$ 134,457
State	369,144	-	3,145	-	372,289
Local	-	-	-	3,402	3,402
Fines and forfeitures	-	258	-	-	258
Interest	3,531	1,021	-	273	4,825
Other	7,415	1,000	-	-	8,415
Total revenues	514,547	2,279	3,145	3,675	523,646
Expenditures					
Public safety	-	236	5,401	1,637	7,274
Public works	511,132	-	-	-	511,132
Total expenditures	511,132	236	5,401	1,637	518,406
Revenues over (under) expenditures	3,415	2,043	(2,256)	2,038	5,240
Other financing sources (uses)					
Transfers in	131,603	-	2,256	10,142	144,001
Transfers (out)	-	-	(10,142)	-	(10,142)
Total other financing sources (uses)	131,603	-	(7,886)	10,142	133,859
Net change in fund balances	135,018	2,043	(10,142)	12,180	139,099
Fund balances, beginning of year	47,396	41,320	10,142	-	98,858
Fund balances, end of year	\$ 182,414	\$ 43,363	\$ -	\$ 12,180	\$ 237,957

CITY OF HASTINGS

Schedule of Revenues, Expenditures and Changes in Fund Balance Major Streets Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental revenue:				
Local	\$ 75,000	\$ -	\$ -	\$ -
Federal	983,303	802,582	134,457	(668,125)
State	444,041	456,228	369,144	(87,084)
Interest	5,000	5,000	3,531	(1,469)
Other	-	5,295	7,415	2,120
Total revenues	1,507,344	1,269,105	514,547	(754,558)
Expenditures				
Public works:				
Construction	1,373,790	1,087,162	148,613	(938,549)
Routine maintenance	355,098	359,394	362,519	3,125
Total expenditures	1,728,888	1,446,556	511,132	(935,424)
Revenues over (under) expenditures	(221,544)	(177,451)	3,415	180,866
Other financing sources (uses)				
Transfers in	188,333	131,603	131,603	-
Net change in fund balances	(33,211)	(45,848)	135,018	180,866
Fund balance, beginning of year	47,396	47,396	47,396	-
Fund balance, end of year	\$ 14,185	\$ 1,548	\$ 182,414	\$ 180,866

CITY OF HASTINGS

Schedule of Revenues, Expenditures and Changes in Fund Balance Drug Enforcement Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Fines and forfeitures	\$ -	\$ -	\$ 258	\$ 258
Interest	1,800	1,800	1,021	(779)
Other	-	1,000	1,000	-
Total revenues	1,800	2,800	2,279	(521)
Expenditures				
Public safety	5,700	6,700	236	(6,464)
Net change in fund balances	(3,900)	(3,900)	2,043	5,943
Fund balance, beginning of year	41,320	41,320	41,320	-
Fund balance, end of year	\$ 37,420	\$ 37,420	\$ 43,363	\$ 5,943

CITY OF HASTINGS

Schedule of Revenues, Expenditures and Changes in Fund Balance Police Training Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental:				
State	\$ 3,200	\$ 3,200	\$ 3,145	\$ (55)
Expenditures				
Public safety:				
Police training	5,250	5,401	5,401	-
Revenues under expenditures	(2,050)	(2,201)	(2,256)	(55)
Other financing sources				
Transfers in	2,050	2,256	2,256	-
Transfers (out)	(10,016)	(10,142)	(10,142)	-
Total other financing sources (uses)	(7,966)	(7,886)	(7,886)	-
Net change in fund balances	(10,016)	(10,087)	(10,142)	(55)
Fund balance, beginning of year	10,142	10,142	10,142	-
Fund balance, end of year	\$ 126	\$ 55	\$ -	\$ (55)

CITY OF HASTINGS

Schedule of Revenues, Expenditures and Changes in Fund Balance D.A.R.E. Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental:				
Local	\$ 2,927	\$ 2,927	\$ 3,402	\$ 475
Interest	450	450	273	(177)
Total revenues	3,377	3,377	3,675	298
Expenditures				
Public safety:				
Drug awareness	3,100	3,100	1,637	(1,463)
Revenues under expenditures	277	277	2,038	1,761
Other financing sources				
Transfers in	10,016	10,142	10,142	-
Net change in fund balances	10,293	10,419	12,180	1,761
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ 10,293	\$ 10,419	\$ 12,180	\$ 1,761

INTERNAL SERVICE FUNDS

CITY OF HASTINGS

Combining Statement of Net Assets Internal Service Funds

June 30, 2008

	Equipment Pool	Administrative Services	Total
Assets			
Current assets:			
Cash and pooled investments	\$ 590,161	\$ 267,152	\$ 857,313
Accounts receivable	-	26	26
Prepaid items	-	75,301	75,301
Total current assets	590,161	342,479	932,640
Non-current assets:			
Advance to other funds	13,291	-	13,291
Capital assets not being depreciated	104,700	152,000	256,700
Capital assets being depreciated, net	1,041,551	1,263,903	2,305,454
Total non-current assets	1,159,542	1,415,903	2,575,445
Total assets	1,749,703	1,758,382	3,508,085
Liabilities			
Current liabilities:			
Accounts payable	9,719	75,974	85,693
Accrued liabilities	1,593	10,744	12,337
Accrued interest	-	6,086	6,086
Compensated absences	6,853	161,450	168,303
Current portion of bonds payable	-	100,000	100,000
Total current liabilities	18,165	354,254	372,419
Long-term liabilities:			
Advance from other funds	155,103	49,858	204,961
Bonds payable, net of current maturities	-	400,000	400,000
Total long-term liabilities	155,103	449,858	604,961
Total liabilities	173,268	804,112	977,380
Net assets			
Invested in capital assets, net of related debt	1,146,251	915,903	2,062,154
Unrestricted	430,184	38,367	468,551
Total net assets	\$ 1,576,435	\$ 954,270	\$ 2,530,705

CITY OF HASTINGS

Combining Statement of Revenues, Expenses and Changes in Net Assets Internal Service Funds

For the Year Ended June 30, 2008

	Equipment Pool	Administrative Services	Total
Operating revenues			
Charges for services	\$ 523,185	\$ 1,512,000	\$ 2,035,185
Operating expenses			
Personnel services	67,254	914,188	981,442
Professional and contractual services	-	163,064	163,064
Materials and supplies	219,912	44,992	264,904
Utilities	41,288	29,254	70,542
Repairs and maintenance	46,867	23,793	70,660
Insurance and bonds	18,391	58,736	77,127
Equipment rental	5,357	19,106	24,463
Depreciation	116,231	67,309	183,540
Administrative services	26,270	-	26,270
Miscellaneous	466	1,965	2,431
Total operating expenses	542,036	1,322,407	1,864,443
Operating income (loss)	(18,851)	189,593	170,742
Nonoperating revenues (expenses)			
Interest income	27,642	3,710	31,352
Gain (loss) on sale of capital assets	13,000	(1,622)	11,378
Miscellaneous	7,113	13,875	20,988
Interest expense	(5,810)	(29,159)	(34,969)
Total nonoperating revenues (expenses)	41,945	(13,196)	28,749
Net income before transfers	23,094	176,397	199,491
Transfers			
Transfers in	110,451	-	110,451
Change in net assets	133,545	176,397	309,942
Net assets, beginning of year	1,442,890	777,873	2,220,763
Net assets, end of year	\$ 1,576,435	\$ 954,270	\$ 2,530,705

CITY OF HASTINGS

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2008

	Equipment Pool	Administrative Services	Total
Cash flows from operating activities			
Cash received from other funds	\$ 529,000	\$ 1,512,000	\$ 2,041,000
Cash received from other miscellaneous sources	7,113	13,875	20,988
Cash payments to suppliers for goods and services	(344,553)	(300,303)	(644,856)
Cash payments to employees for services	(66,165)	(900,569)	(966,734)
Net cash provided by operating activities	125,395	325,003	450,398
Cash flows from non-capital financing activities			
Advance from other funds	(71,042)	(13,941)	(84,983)
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(193,059)	(57,746)	(250,805)
Proceeds from sale of capital assets	13,000	-	13,000
Principal paid on long-term debt	-	(85,000)	(85,000)
Interest and fiscal charges	(5,810)	(29,159)	(34,969)
Net cash used in capital and related financing activities	(185,869)	(171,905)	(357,774)
Cash flows from investing activities			
Interest income	27,642	3,710	31,352
Net increase in cash and pooled investments	(103,874)	142,867	38,993
Cash and pooled investments, beginning of year	694,035	124,285	818,320
Cash and pooled investments, end of year	\$ 590,161	\$ 267,152	\$ 857,313

Continued....

CITY OF HASTINGS

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2008

	Equipment Pool	Administrative Services	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (18,851)	\$ 189,593	\$ 170,742
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	116,231	67,309	183,540
Miscellaneous receipts	7,113	13,875	20,988
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	-	1,754	1,754
Due from other governmental units	7,688	-	7,688
Prepaid items	2,206	5,340	7,546
Advance to other funds	5,815	-	5,815
Accounts payable	4,104	34,667	38,771
Accrued interest payable	-	(1,154)	(1,154)
Accrued payroll liabilities	903	2,608	3,511
Compensated absences	186	11,011	11,197
Net cash provided by operating activities	\$ 125,395	\$ 325,003	\$ 450,398

AGENCY FUNDS

CITY OF HASTINGS

Combining Statement of Assets and Liabilities Agency Funds

June 30, 2008

	Tax			
	Collections	Payroll	Total	
Assets				
Cash and pooled investments	\$ 1,861	\$ 5,172	\$ 7,033	
Liabilities				
Due to other governmental units	\$ 1,861	\$ 5,172	\$ 7,033	

COMPONENT UNITS

CITY OF HASTINGS

Downtown Development Authority Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2008

	Operating Fund	Adjustments	Statement of Net Assets
Assets			
Cash	\$ 345,631	\$ -	\$ 345,631
Liabilities			
Accounts payable	\$ 11,020	-	11,020
Fund balance			
Unreserved - undesignated	334,611	(334,611)	
Total liabilities and fund balance	\$ 345,631	(345,631)	
Net assets			
Unrestricted		\$ 334,611	\$ 334,611

CITY OF HASTINGS

Downtown Development Authority Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2008

	Operating Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 494,558	\$ -	\$ 494,558
Interest	11,273	-	11,273
Other	600	-	600
Total revenues	506,431	-	506,431
Expenditures/expenses			
Transfer to primary government	284,224	-	284,224
Capital outlay	98,997	-	98,997
Other	7,186	-	7,186
Total expenditures/expenses	390,407	-	390,407
Changes in fund balances/net assets	116,024	-	116,024
Fund balances/net assets, beginning of year	218,587	-	218,587
Fund balances/net assets, end of year	\$ 334,611	\$ -	\$ 334,611

CITY OF HASTINGS

Local Development Finance Authority Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2008

	Operating Fund	Adjustments	Statement of Net Assets
Assets			
Cash	<u>\$ 69,762</u>	\$ -	<u>\$ 69,762</u>
Fund balance			
Unreserved - undesignated	<u>69,762</u>	<u>(69,762)</u>	
Total liabilities and fund balance	<u>\$ 69,762</u>	<u>(69,762)</u>	
Net assets			
Unrestricted		<u>\$ 69,762</u>	<u>\$ 69,762</u>

CITY OF HASTINGS

Local Development Finance Authority Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2008

	Operating Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 4,763	\$ -	\$ 4,763
Interest	1,695	-	1,695
Total revenues	6,458	-	6,458
Expenditures/expenses			
Capital outlay	1,658	-	1,658
Changes in fund balances/net assets	4,800	-	4,800
Fund balances/net assets, beginning of year	64,962	-	64,962
Fund balances/net assets, end of year	\$ 69,762	\$ -	\$ 69,762

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

November 17, 2008

Honorable Mayor and
Members of the City Council
Hastings, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hastings, Michigan, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hastings, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hastings, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hastings, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding 2008-1 – Segregation of Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets.
Condition:	During our audit, we noted that bank reconciliations are prepared by an individual also involved with the processing of cash receipts and that such reconciliations are then only subject to random review and approval by an individual other than the preparer. We also noted that a single individual is involved in the preparation of utility billings is also responsible for processing utility receipts.
Cause:	This condition is a result of the limited number of accounting personnel and related timing constraints.
Effect:	As a result of this condition, the City is exposed to the risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner. No such misstatements were discovered during our audit.
Recommendation:	We recommend that all bank reconciliations be reviewed, initialed, and dated by a responsible individual other than the preparer. We further recommend that the City assign the duties of utility billings and receipting to separate individuals, wherever possible, and introduce elements of independent review and approval where this proves difficult.
View of Responsible Officials:	Management acknowledges that due to the limitations on the size of the City's staff, we cannot realistically achieve an ideal segregation of duties in all cases. Management attempts to mitigate this effect through supervision and review wherever possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hastings, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the City Council of the City of Hastings, Michigan in a separate letter dated November 17, 2008.

The City of Hastings, Michigan's response to the finding identified in our audit is described above. We did not audit the City of Hastings, Michigan's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

November 17, 2008

Honorable Mayor and
Members of the City Council
City of Hastings

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Hastings* (the "City") for the year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on September 2, 2008.



Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 17, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of Hastings and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohorn". The signature is written in a cursive, flowing style.

City of Hastings
Comments and Recommendations
For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the City of Hastings (the “City”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. The deficiency we noted that we consider to be a significant deficiency is described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Other Matters

New Accounting Standard - Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board recently issued Statement No. 43, Financial Reporting for Post Employment Benefit Plans other than Pension Plans. Statement No. 43 will become effective for the City for fiscal year 2009 and will require additional note disclosures, an actuarial evaluation of the City’s OPEB plan, and possible recognition of OPEB expenses in the government-wide financial statements based on actuarially determined amounts.

The implementation of this new standard will require the City to make certain decisions regarding the funding of its OPEB liabilities. We are available to discuss this with management and/or to assist the City with properly accounting for its OPEB transactions in future periods, as needed.

City of Hastings
Comments and Recommendations
For the Year Ended June 30, 2008

Internal controls over Information Technology

During our audit, we reviewed with management a list of recommended information technology controls. We noted various opportunities to enhance controls over IT as it relates to disaster recovery and formal IT policies and procedures. We recommend that the City review the suggested controls not currently in place and determine whether it would be cost beneficial to revise such controls in the future.

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City of Hastings
Schedule of Adjustments Passed (SOAP)
For the June 30, 2008 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

Effect of Passed Adjustment - Over(Under)Statement				
Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
Special Revenue - 202/Governmental Activities				
Disbursements made in FY09 that should have been accrued to FY08				
-	(2,920)	-	(2,920)	-
Component Unit - 248				
Disbursements made in FY09 that should have been accrued to FY08				
-	(381)	-	(381)	-
Sewer/Water Fund - 592				
Disbursements made in FY09 that should have been accrued to FY08				
-	(13,460)	-	(13,460)	-